HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Kitchener and Guelph CMAs

Canada Mortgage and Housing Corporation

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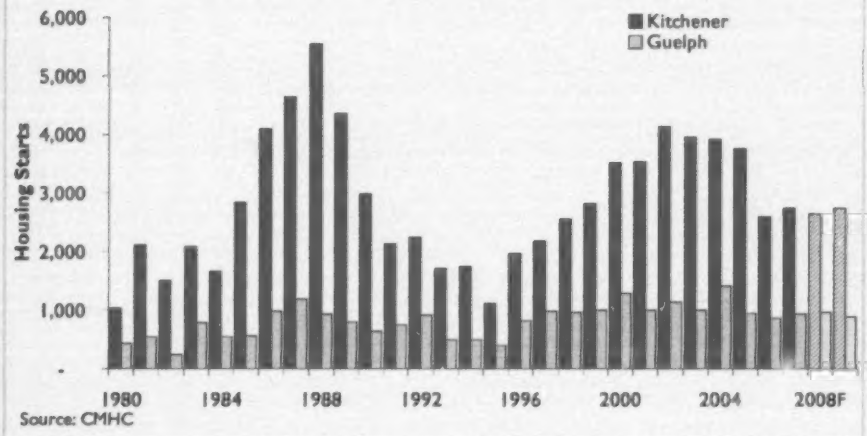
New Home Market

Starts to Plateau

Home starts in the Kitchener CMA will reach 2,650 in 2008, down just three per cent from the 2,740 homes started in 2007. Guelph CMA housing starts in 2008 will increase two per cent to 960 from the 941 homes started in 2007. Higher mortgage carrying costs and a well supplied resale home market in the Kitchener-Guelph area will keep housing starts below peak levels recorded earlier in the decade. Construction will move more in line with population growth. Kitchener CMA starts will move slightly higher in 2009, while starts in the Guelph CMA will decline slightly.

Figure 1

Housing Starts Plateau



Source: CMHC

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HOME TO CANADIANS

Single-detached starts in the Kitchener CMA are forecast to reach 1,400 in 2008, up 21 per cent from the below-average 1,159 homes started in 2007. The resale market tightened considerably in early 2007 which meant more homebuyers made their purchase in the new market in 2007. Those sales will translate into more single-detached new home construction this year. With more than 3,000 single-detached lots in registered plans at the beginning of 2008, there is an adequate supply of lots for new construction this year. Single-detached starts in the Guelph CMA will decline by three per cent to 560 units in 2008 from the 575 homes started in 2007. New single-detached homes are becoming more expensive, but a growing segment of affluent move-up buyers will keep demand steady for these more expensive homes. Single-detached new home prices will only rise about three per cent in the Kitchener-Guelph area in 2008. To be competitive with the resale home market, new single-detached home price growth has slowed. The New Home Price Index (NHPI) for the Kitchener CMA, which measures changes in prices of new houses of constant quality, will move higher by 1.8 per cent in 2008.

In the Kitchener CMA, apartment starts in 2008 will decline over 30 per cent to 500 units. While the number of rental apartments constructed will drop by 70 per cent, condominium apartment starts will somewhat offset this decline. On the other hand, Guelph CMA apartment starts are forecast to increase due to a surge in condominium apartment construction. As mortgage carrying costs increase for new single-detached homes, homebuyers will increasingly look to less expensive housing options. The more affordable home types will become more attractive to new home buyers. Condominium apartments will become more popular to satisfy both the shift to higher density forms of housing and smaller household size.

Resale Market

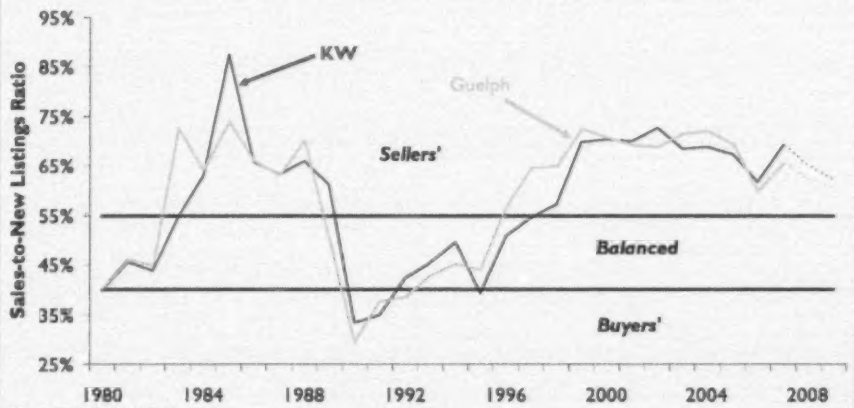
Existing Home Sales Will Decline From Record Levels

Existing home sales will remain at strong levels throughout the Kitchener-Guelph area in 2008, but will decline from the record levels recorded in 2007. Sales through the Kitchener-Waterloo Real Estate Board will decline to 6,500 in 2008, down almost eight per cent from the record level of 7,031 sales in 2007. Despite the forecast decline, MLS® sales will be at the second highest level on record. Sales through the Guelph and District Real Estate Board will drop nine per cent to 2,800 in 2008 from the record 3,088 sales in 2007. Expect sales throughout the Kitchener-Guelph area to decline further in 2009.

Rising mortgage carrying costs due to price growth will dampen existing home sales in the Kitchener-Guelph area this year in two ways. Firstly, mortgage carrying costs have increased faster than rents, widening the cost gap between owning and renting. Secondly, house prices have been rising faster than incomes thereby reducing affordability. While household incomes are estimated at having increased by 6.3 per cent between 2005 and 2008, mortgage carrying costs[1] on the average-priced resale home increased by 33.9 per cent in the same period. Some households will delay their home purchase as a consequence. In addition, following the record level of sales last year, most of the pent-up

Figure 2

Resale Home Markets Favour Sellers in 2008



Source: CMHC, CREA

[1] Based on a 25 year amortization and the posted fixed 5-year mortgage rate averaged across all lenders,

Figure 3

demand for ownership housing has now been fulfilled. It is also important to note that the overall decline in consumer confidence due to the economic conditions south of the border is also negatively affecting home sales. On the positive side, the price gap between new and resale homes, a high level of new listings, diverse financing options and continued population growth will combine to keep existing home sales at very high levels. In addition, Kitchener incomes relative to mortgage carrying costs are higher than in either Hamilton or Toronto.

Expect new listings to decline marginally in 2008 and reach 10,000 in KW and 4,600 in Guelph. Rising house prices will continue to encourage homeowners to list their homes for sale. As house prices have risen steadily over the last several years, the supply of new listings has trended higher. New listings will remain at this high level throughout 2008. With more listings relative to sales, there will be ample choice for homebuyers in the resale home market.

Despite a decline in demand and a high level of supply, the existing home markets in the Kitchener-Guelph area will continue to favour sellers in 2008. Although lower than in 2007, the sales-to-new listings ratio (SNLR)[2] is expected to be around 65 per cent in KW and 60 per cent in Guelph in 2008. The resale home market seller's market conditions imply future price growth will be above the rate of inflation.

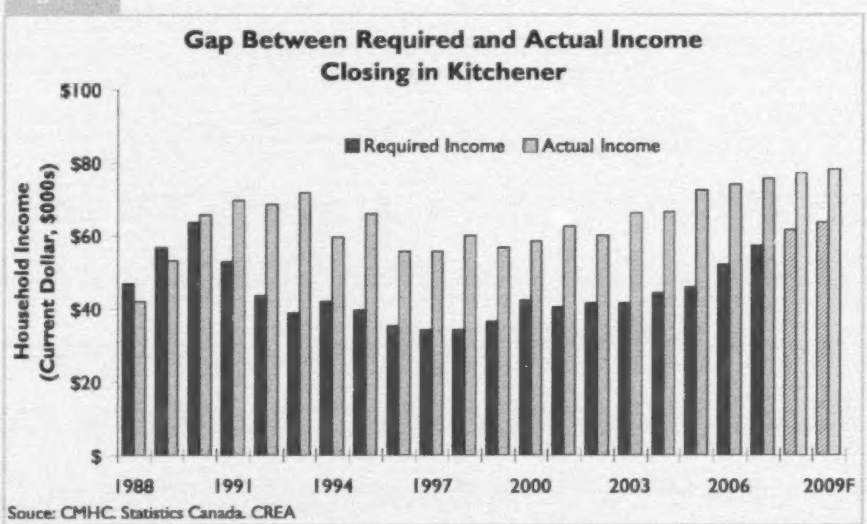
As demand for resale homes slows, price pressures will ease somewhat. Resale home prices through the Kitchener-Waterloo Real Estate Board are expected to increase by 4.6 per cent to $264,000 in 2008, after a 6.1 per cent increase in 2007. Guelph resale home prices are forecast to increase by 4.5 per cent in 2008.

Economic Trends

Employment Steady

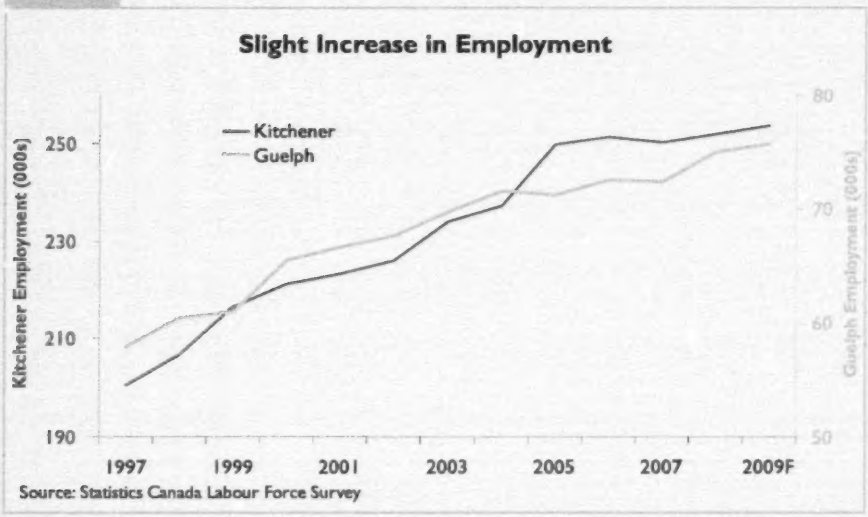
The economy in the Kitchener-Guelph area continues to face challenges from a high Canadian dollar and weak U.S. demand. Despite an uncertain economic picture, employment in the Kitchener-Guelph area will remain at a high level. After minimal employment

Figure 4



[2] In Kitchener a SNLR above 60 per cent is considered to favour sellers, while in Guelph a SNLR above 55 per cent is considered to favour sellers.

Figure 5



decreases in 2007, total employment is forecast to increase by 0.6 per cent in the Kitchener CMA and by 3.6 per cent in the Guelph CMA in 2008. Employment growth is supported by domestic demand and a strong services sector.

Manufacturing is a key sector in the area, employing more than 20 per cent of the labour force. The manufacturing sector and its largest component, the automotive industry, have been adjusting in the last few years and will continue to face challenges throughout 2008. The high Canadian dollar, weaker demand from the United States and competition from other countries have led to the deterioration in net exports.

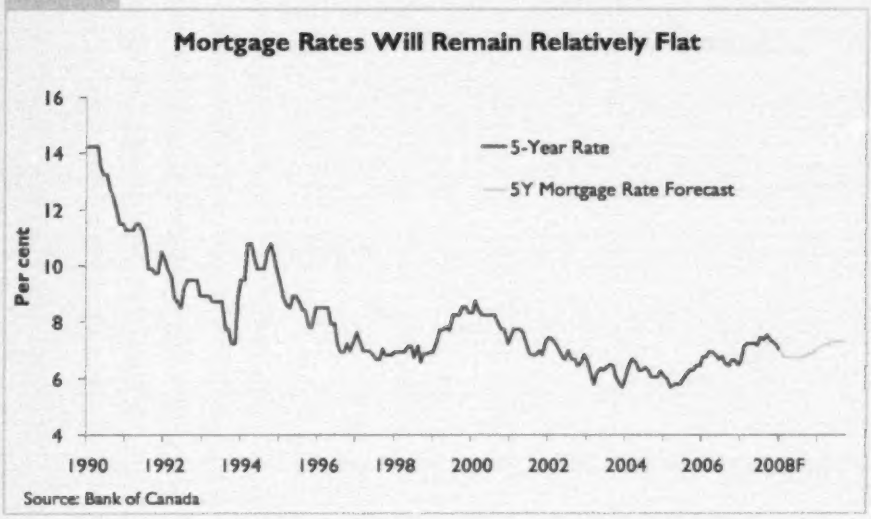
Although several manufacturing companies in the area are expected to lay off workers in 2008, the opening of the Woodstock Toyota plant this year will offset most of these job losses. Offsetting the weak goods-producing sector performance is the growth in the services sector, led by double digit growth in employment in education. Employment in the Kitchener-Guelph area's high tech sector continues to see strong growth..

Weekly earnings in the growing services sector tend to be on average lower than in the contracting goods-producing sector. As a result, growth in average earnings in the Kitchener CMA will not keep up with inflation this year. However, the high tech, public administration and transportation sectors within the services sectors have average earnings well above average and will support the demand for single-detached homes.

Population Growth to Continue

Data from the 2006 Census characterizes the Kitchener-Guelph area as having a younger population than the average in Ontario. Natural increase, as a percentage of population growth, is higher in this area. For the first time in over a decade in the Kitchener CMA, natural increase has overtaken net migration as the largest source of population growth. Immigration and intra-provincial migration have also been drivers of population growth. A high employment rate and more affordable house prices are just a couple of factors which draw migrants to this area. Despite an outflow of migrants to other provinces, net migration into the Kitchener CMA is expected to reach 2,000 persons in 2008, similar to the level recorded in 2007. This compares to net inflows of more than 4,000 persons as recently as 2004.

Figure 6



Mortgage Rates Will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Forecast Summary Kitchener CMA Spring 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	6,147	6,115	7,031	6,500	-7.6	6,100	-6.2
MLS® New Listings	9,127	9,896	10,164	10,000	-1.6	9,800	-2.0
MLS® Average Price ($)	220,511	237,913	252,429	264,000	4.6	274,000	3.8
New Home Market							
Starts:							
Single-Detached	2,082	1,542	1,859	1,400	20.8	1,500	7.1
Multiples	1,681	1,057	1,581	1,250	-20.9	1,250	0.0
Semi-Detached	116	210	234	150	-35.9	150	0.0
Row/Townhouse	918	545	594	600	1.0	600	0.0
Apartments	647	302	753	500	-33.6	500	0.0
Starts - Total	3,763	2,599	2,740	2,650	-3.3	2,750	3.8
Average Price ($):							
Single-Detached	287,623	313,149	345,819	357,000	3.2	367,000	2.8
New Housing Price Index (% chg.)	5.0	4.1	1.5	1.8	-	2.0	-
Rental Market							
October Vacancy Rate (%)	3.3	3.3	2.7	2.5	-0.2	2.4	-0.1
Two-bedroom Average Rent (October) ($)	811	824	829	841	-	854	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	249,900	251,400	250,300	251,900	0.6	253,700	0.7
Employment Growth (%)	5.3	0.6	-0.4	0.6	-	0.7	-
Unemployment rate (%)	5.7	5.2	5.5	5.6	-	5.6	-
Net Migration [1]	2,793	1,973	2,000	2,000	0.0	2,000	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

Forecast Summary Guelph CMA Spring 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	2,932	2,859	3,088	2,800	-9.3	2,600	-7.1
MLS® New Listings	4,223	4,771	4,704	4,600	-2.2	4,500	-2.2
MLS® Average Price ($)	236,140	245,676	262,186	274,000	4.5	280,000	2.2
New Home Market							
Starts:							
Single-Detached	566	485	575	560	-2.6	540	-3.6
Multiples	385	379	366	400	9.3	350	-12.5
Semi-Detached	70	80	58	50	-13.8	50	0.0
Row/Townhouse	282	205	274	200	-27.0	200	0.0
Apartments	33	94	34	150 **		100	-33.3
Starts - Total	951	864	941	960	2.0	890	-7.3
Average Price ($):							
Single-Detached	300,001	342,330	360,882	372,000	3.1	383,000	3.0
New Housing Price Index (% chg.) (Ont.)	4.6	3.7	2.6	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	3.6	2.8	1.9	1.8	-0.1	1.7	-0.1
Two-bedroom Average Rent (October) ($)	830	839	848	860	-	873	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	71,250	72,575	72,375	75,000	3.6	75,700	0.9
Employment Growth (%)	-0.4	1.9	-0.3	3.6	-	0.9	-
Unemployment rate (%)	4.7	5.4	5.8	5.8	-	5.8	-
Net Migration (Ont.) (1)	101,730	98,768	68,759	57,932	-15.7	64,500	11.3

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